

**THE CONTRIBUTION OF MICRO FINANCE INSTITUTIONS TO
THE GROWTH OF SMALLHOLDER FARMERS AND
FISHERMEN (SFF):**

A CASE STUDY OF SELECTED SFF IN THE PEMBA ISLAND

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A CASE STUDY OF SELECTED SFF IN THE PEMBA ISLAND**

By

Ali Mohamed Mbarouk

**A Dissertation is submitted in partial fulfillment of the requirements for the award
of Degree of Master of Science in Accounting and Finance (Msc. A & F) of
Mzumbe University**

2015

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation titled, **The Contribution of Micro Finance Institutions to the Growth of Smallholder Farmers and Fishermen (SFF): A Case Study of Selected SFF in the Pemba Island**, in partial fulfillment of the requirements for the award of Master of Science in Accounting and Finance (Msc. A&F) of Mzumbe University.

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DEAN, SCHOOL OF BUSINESS

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I, Ali Mohamed Mbarouk, Do declare that this dissertation is my own original work, and that it has not been presented and will not be presented to any other University for a similar or other degree award.

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DEDICATION

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ABBREVIATIONS

CBO	Community based Organization
EU	European Union
GDP	Gross Domestic Product
IBP	Individual Banking programmes
MFI	Microfinance Institutions
MSE	Micro and small enterprises
NGO	Non-Governmental Organization
NMB	National Microfinance Bank
PBZ	Peoples Bank of Zanzibar
PESACA	Pemba Saving and Credit association
RGZ	Revolutionary Government of Zanzibar
SFF	Smallholder farmers and fishermen
SHG	Self Help Group
SME	Small and Medium Enterprises
SMEP	Small and Medium Enterprise Program

ABSTRACT

Smallholder farmers and fishermen continue to fail from the problems that microfinance institutions claim to offer solutions to. According to the 2002, Population and Housing Census of Tanzania indicate that three out of five SME businesses (including smallholder farmers and fishermen (SFF)) fail within the first few months of operation. A gap exists in finding out the contribution of Microfinance institutions to the growth of SFF. The study was expected to establish the practical role of perceived solutions provided by microfinance institutions and how this contributes to the growth of smallholder farmers and fishermen (SFF) in Pemba Island. The study was guided by three major objectives; Assessing the lending technology adopted by MFIs in accessing credit services to smallholder farmers and fishermen; Determining factors that influence credit accessibility by smallholder farmers and fishermen; and Determining the challenges preventing growth of the smallholder farmers and fishermen (SFF)

A survey design study was used to conduct an investigation and achieve study objectives. Data was gathered from managers of MFI institutions as well as SFF within Pemba Island in rural and urban area. Stratified sampling was adopted to select 20 cooperative societies and five microfinance institutions to participate in the study. Data was collected via a questionnaire. Presentation of data was done in tables and interpretation made based on specific research objectives.

The study findings indicated that the majority of the technology used is group lending technology (65.71%). Group is formed by members who know each other very well and have some social ties which act as collateral for the loans. Also microfinance institutions provide a series of products and services that influence the credit accessibility, that include having small-scale business accounts, business management training, marketing services and financial literacy skills. Out of these, small-scale business loans are the major product offered by Microfinance institutions as indicated by 37.14% of the respondents while business management skills are the least offered

represented by 11.43%. This is because most of the beneficiaries (borrowers) have low income generation therefore they prefer to take small loan to enable them to repay on time and have low financial literacy. The challenges preventing SFF from growth and development are lack of enough finances, financial management skills, poor financial literacy and lack of market for products. Among these challenges, lack of finances is most common challenge preventing growth and development of their businesses. These challenges explain why some smallholder farmers and fishermen at the same level while others have scaled down their operations.

The study recommends MFIs have to create environment to SFF to access individual lending by reducing some conditions such as lowering interest rate and providing uncollateralized loans. Also MFIs have to plan for seminars and workshops to train the SFF on financial literacy, management skills and facilitation of ICT use. Furthermore, MFIs should develop a regular needs assessment among SFF so as to provide relevant products. A related study can be done to analyze the economic factors affecting microfinance institutions in financing SFF. A similar study on the Contribution of Microfinance Institutions to the growth of Smallholder farmers and fishermen in other towns apart from Pemba Island can be done. It is very important to conduct the same around Zanzibar comprises both Pemba and Unguja Island.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This part of the proposal explains about introduction of the research with the aim of showing the rationale behind the work which includes background to the problem that introducing the overview of the topic. It also contains statement of the problem which concentrate on problems studied, objective of the study both general and specific, research questions which will help the researcher to reach the research objectives, hypothesis of the study, significance of the study and scope and limitation of the study.

1.1 Background to the Problem

Zanzibar is among developing countries in Sub- Sahara Africa. It comprises of two main islands of Unguja and Pemba and several islets. The total land area is 2,643 Km² (Unguja 1,658 Km² and Pemba 985 Km²). Administratively, Zanzibar is divided into five regions and 10 districts. The districts are further divided into constituencies, Shehias and villages.

Based on the 1988 census, the estimated population of the islands for the year 2000 is 890,000 of which 51 percent are female and 49 percent are male. The average population growth rate is three percent per annum. The average density is 337 persons per Km². About 65 percent of the population lives in rural areas with over 70 percent are directly or indirectly involved in agricultural activities. About 132,000ha of Zanzibar land (Unguja 64,000ha and Pemba 68,000ha) are under cultivation. The average size of landholdings per family is less than 1.5ha. Women perform most of the farm operations. About 20 percent of the households are directly involved in fishing as a main component in the family production system .

Zanzibar has been trying to fight against three major enemies facing mankind: poverty, ignorance and diseases like other Low Income Countries (LICs). Over time, several policies have been formulated; strategies and programmes developed all aim to improve the living standard of the people.

Over the years, the microfinance sector has succeeded and evolved into its current state, thanks to various financial sector policies and programmes undertaken by government since independence.

From mid- 1960s the government, while pursuing a centrally planned economy, embarked on a special programme of providing social basic services to people free of charge as a way of improving the quality of life of the people and alleviating poverty. Although, the unfavorable economic performance of the 1980s, did not allow the government to maintain this programme as was originally imagined. Thus the government was forced to take remedial measures by embarking on liberal economic policies. In 1986, the reform programmes were initiated with a focus on getting away with the state- controlled economy and moving to market oriented economic system. The liberalization process was expected to stabilize the macro- economic aspects and enhance private sector development in the economy that would lead to improved efficiency in the production processes.

Reforms in the financial sector initiated in 1991 aimed at liberalizing the financial sector in order to create a more competitive and efficient financial system. However, the overall outcome of financial reforms has remained mixed. The reform process has so far encouraged the entry of private sector into the banking sector and has led to the liberalization of the interest and exchange rates. Also demand-led credit allocation has been promoted and bank portfolio restrictions undisturbed.

On the other hand the reforms have had adverse effects, especially for the poor, particularly those with limited resources at their disposal. For example, the inadequate operational practices of the major commercial banks that have led to negative impacts

on the accessibility of financial services to farmers and micro-enterprises in both rural and urban areas is a case in point. Recent studies also show that the rural sector and in particular, the agricultural sector has continued to be marginalized even after the reform process and as such affected the quality of rural life.

Various sources (UNDP 1996, GoZ 2001 and UNDP 2001) indicate that Zanzibar is still under the firm grip of poverty, which is more pronounced in the rural areas particularly in the Pemba Island. Many households in Zanzibar are considered to live below the poverty line. Monthly income per capita is estimated at Tshs. 1,322 (1991 prices), which is only US\$ 69 per annum. Those considered poor based on income poverty make 53 percent and severely poor form 24 percent (GoZ, 2000). The estimation using the median income as a poverty line shows that 50 percent of people living in rural Zanzibar are poor (Mkenda, 2001). The peasant households are considered to be poorer than any other occupational groups in rural Zanzibar.

Low productivity in agriculture, livestock keeping and fishing due to poor technology are the major underlying cause of poverty in Zanzibar. Mkenda, (2001) notes that limited access to resources and productive assets such as land, cattle, and fishing equipment and gears is the main contributing factor to poverty as well as limited access to credit facilities, poor infrastructure and markets.

The literacy rate for Zanzibar is 60 percent (GoZ, 1999a) with Unguja scoring higher in education than Pemba. Men (in both islands) comparatively have more formal education than women. Malnutrition among under-fives is also a problem with 40 percent of the children under five being stunted, 17percent severely stunted. There is higher prevalence of stunting in rural areas (49 percent) than urban areas (16 percent) and a high disparity between Unguja (seven percent) and Pemba (20 percent). Life expectancy in Zanzibar is low, estimated to be only 48 years of age at birth (UNDP, 2001).

In an effort to address poverty problems, the Government of Zanzibar (GoZ) starting from the mid-1990s has commissioned the preparation of a number of policy documents such as Vision 2020 (GoZ, 1999b), Grassroots Initiatives for Poverty Reduction (UNDP, 1996), Common Country Assessment (UNDP, 2001) and the more recent and comprehensive Zanzibar Poverty Reduction Plan (GoZ, 2001 seeking to improve governance, enhance participation and social inclusion with the ultimate objective of reducing poverty in the islands.

The overall goal of Zanzibar's Vision 2020 is to promote sectorial transformation from a predominantly rural based subsistence agricultural economy to a modern economy, with the primary objective of eradicating poverty. In the agricultural sector the emphasis is on transforming agriculture from subsistence to commercial production through: (i) developing and promoting the use of new and modern technologies to increase production and (ii) expanding and improving economic infrastructure in order to improve and open up markets.

The primary target groups for poverty reduction under the Zanzibar Poverty Reduction Plan (ZPRP) (2001) include the rural small farmers and artisanal fishermen. The ZPRP sees growth in the agricultural sector as the biggest challenge and the one with the potential to have the widest impact on poverty. Thus one of the key overall objectives of the ZPRP is to increase productivity in the agricultural sector (crops, livestock, fisheries and forestry) and achieve national and household food security. The specific objectives of the ZPRP and proposed actions are in line with the objectives of Zanzibar Agricultural Sector Policy (2000).

1.2 Statement of the problem

According to Mohamed (2003), 70 percent of the rural Zanzibar's population are involved in agricultural and fishing activities, but there are no efforts to facilitate credit to farmers and fishermen which is crucial in rapid development of this dominant section of the population. The available piecemeal credit services are operated by small

credit schemes, which are limited in scope and have specific target groups. It is argued that inadequacy in financing and credit arrangements in Zanzibar hinder development of fishing and rural economic sectors. However there are limited research which have been conducted so far to examine the contribution of MFIs to the growth of smallholder farmers and fishermen. Given these sectors are the foundations of a large segment of the populace, their poor performance makes the fight against poor living standard even more challenging.

The number of MFI, in Zanzibar continues to grow rapidly. However, their wide presence does not correspond with the extent of reduction in the major challenges that affect the growth of smallholder farmers and fishermen (SFF) in the country. This study is designed to analyze the impact of MFIs on the growth and sustainability of Smallholder farmers and fishermen (SFF) in Pemba and to propose a more effective approach that MFIs can adopt in order to meet the growth-oriented needs of those groups.

1.3 Objective of the study

1.3.1 General objective

This study involves a general assessment of the contribution of MFIs on the accessibility of credit to smallholder farmers and fishermen (SFF).

1.3.2 Specific objectives

More specifically, the study aims at:

- i. Assessing the lending technology adopted by MFIs in availing credit services to smallholder farmers and fishermen;
- ii. Determining factors that influence credit accessibility by smallholder farmers and fishermen;
- iii. Determining the challenges preventing growth of the smallholder farmers and fishermen (SFF)

1.4 Research questions

The following research questions guided this study:

- i. How relevant are the lending technology adopted by MFIs to the needs and aspirations of smallholder farmers and fishermen and to the sustainability of the credit arrangements?
- ii. What socio-economic factors influence accessibility to credit by smallholder farmers and fishermen?
- iii. What are the challenges preventing from growth of smallholder farmers and fishermen?

1.5 Significance of the study

It is worth mentioning that most researchers have found this area of study very important to the development of the socio-economic activities in developing countries like Zanzibar.

This study is centered on the activities of MFIs and their contributions to the development of smallholder farmers and fishermen in Pemba Island

A study of this nature is very imperative, as it would provide the government with the needed information in designing a policy framework to enhance the development of the Smallholder farmers and fishermen. It would also enlighten the public on the role MFIs play in the agricultural sector.

Microfinance as a whole provides the average Zanzibar's a means to have access to financial services in their localities to boost their living standards in a sustainable manner in line with the millennium development goal of alleviating poverty. The study was assisted MFIs to adopt the necessary measures needed to ensure the desired growth in the agricultural industry.

In addition, the study would serve as a source of reference for other researcher or members of the general public who need information in the subject. More importantly, smallholder farmers and fishermen may find it useful in the successful operation of their business as the study will unveil some of the reasons why some Smallholder farmers and fishermen fail.

1.6 Scope and limitation of the study

To cover all the regions in the entire Zanzibar was impossible because of the limited time frame and amount of funds for this research. For this reason, the research covered the people around Pemba Island especially at local area in both regions North and South of Pemba. It considered smallholder farmers and fishermen as the major demander of fund. The study was conducted within a specified time-period, just in six months. It also considered Community based Organizations CBOs mostly Non-Governmental Organizations NGOs available in Pemba.

CHAPTER TWO

LITERATURE RIVIEW

2.0 Introduction

This part of the proposal explains about literature review with the aim of including conceptual definitions that define the entire concept used in this proposal. It also contains theoretical analysis which concentrate on problems studied from different perspectives and approaches, the empirical analysis of relevant studies, research gap identified, analytical/conceptual framework and theoretical framework.

2.1 Conceptual definitions

2.1.1 Microfinance

Microfinance, according to Otero (1999, p.8) is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to Ledgerwood (1989) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001, p.339) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

The microfinance is the provision of financial services such as loans, savings, insurance, and training to people living in poverty. It is one of the great success stories in the developing world in the last 30 years and is widely recognized as a just and sustainable solution in alleviating global poverty

The industry began by providing small loans to emerging entrepreneurs to start or expand businesses. Opportunity International was one of the first nonprofit organizations to recognize the benefits of providing capital to people struggling to work their way out of poverty. Microfinance organizations make it a priority to serve the particular needs of women, since an overwhelming 70 percent of all those living in extreme poverty are female. Women are often excluded from education, the workplace, owning property and equal participation in politics. They produce one half of the world's food, but own just one percent of its farmland. 93 percent of all loans are made to women.

As the microfinance industry continues to mature, there is a danger that it will flow toward a more secure client base. It is critical that microfinance organizations continue to focus on those with the greatest needs—those who have been displaced, those in rural areas, those who traditional institutions consider unbankable the most marginalized people. Maintaining that focus, microfinance can help create a world in which the underserved have fair access to economic opportunities and the hope to move beyond poverty.

2.1.2 The History of Microfinance

Microcredit and microfinance are relatively new terms in the field of development, first coming to prominence in the 1970s, according to Robinson (2001) and Otero (1999). Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidised rural credit programmes. These often resulted in high loan a default, high loses and an inability to reach poor rural households (Robinson, 2001). Robinson states that the 1980s represented a turning point in the history of microfinance in that MFIs such as Grameen Bank and Bank Raykat Indonesia (BRI) began to show that they could provide small loans and saving services profitably on a large scale. They received no continuing subsidies, were commercially funded and fully sustainable, and could attain

wide outreach to clients (Robinson, 2001). It was also at this time that the term “microcredit” came to prominence in development Microfinance Information eXchange (MIX). The difference between microcredit and the subsidized rural credit programmes of the 1950s and 1960s was that microcredit insisted on repayment, on charging interest rates that covered the cost of credit delivery and by focusing on clients who were dependent on the informal sector for credit. It was now clear for the first time that microcredit could provide large-scale outreach profitably.

The 1990s “saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale” (Robinson, 2001, p.54). Dichter (1999, p.12) refers to the 1990s as “the microfinance decade”. Microfinance had now turned into an industry according to Robinson (2001). Along with the growth in microcredit institutions, attention changed from just the provision of credit to the poor (microcredit), to the provision of other financial services such as savings and pensions (microfinance) when it became clear that the poor had a demand for these other services (MIX).

2.1.3 Microfinance and Microcredit

In the literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998, p.2) states “microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, and so on)”. Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Oikocredit, 2005).

Microfinance has a very important role to play in development according to proponents of microfinance. UNCDF (2004) states that studies have shown that microfinance plays three key roles in development. It helps very poor households meet

basic needs and protects against risks, it is associated with improvements in household economic welfare, and it helps to empower women by supporting women's economic participation and so promotes gender equity.

Otero (1989, p.10) illustrates the various ways in which “microfinance, at its core combats poverty”. She states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty (1999). By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1989).

The aim of microfinance according to Otero (1989) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector

Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women.

2.2 Theoretical literature reviews

2.2.1 Microfinance products and services

The services provided by microfinance institutions can be categorized into four broad different categories:

a) Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards, and payment systems should not require ongoing subsidies (Mohamed, 2003).

b) Enterprise development services or non-financial services that assist micro entrepreneurs include skills development, business training, marketing and technology

services, and subsector analysis. This may or may not require subsidies and this depends on the ability and willingness of the clients to pay for these services (Mohamed, 2003).

c) Social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor. Subsidies should be eliminated but social intermediation may require subsidies for a longer period than financial intermediation (Mohamed, 2003).

d) Social services or non-financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training. These social services are like to require ongoing subsidies and are always provided by donor supporting NGOs or the state (Legerwwod, 1998)

2.2.2 Organization of microfinance institutions

2.2.2.1 Cooperative financial institution

These constitute credit unions, savings and loan cooperatives and other financial cooperatives. They are generally identified 21 as credit unions or savings and loan cooperatives and provide savings and credit services to its members. There are no external shareholders and run the same as a cooperative and implementing all its principles. Members who are at the same time customers make the policy of the cooperative. They are either elected or work on voluntary bases. They are not often subjected to banking regulations but have their own regulations and are under the supervision of the ministry of finance of the country. Individual financial cooperatives in a country are often governed by a league that coordinate activities of these credit unions, trains and assist its affiliates, act as a place where the deposit and provide inter lending facilities and act as a link between external donors and the cooperative system (Schmidt et al1997).They raise capital through savings but to receive loans is not easy. Loans are delivered following the minimalist approach where the requirements for

loans are not often difficult to meet by customers; little collateral, character and co-signing for loans between members. These loans are usually loans within the savings of the member (Schmidt et al, 1997).

2.2.2.2 Group Lending

This method of providing small credits to the poor is most used by microfinance that provides loans without collateral. The interest charge is around not much different from that of commercial banks but far lower than interest charge by individual by money lenders. The Grameen bank is a typical example of microfinance institution using this method. The repayment rate is very high since each member is liable for the debt of a group member (Stiglitz, 1990). Group formation is made by members who know themselves very well or have some social ties. Loans are not granted to individuals on their own but to individuals belonging to a group; and the group acts as a collateral which is term social collateral. This is to avoid the problems of poor selection and also to reduce costs of monitoring loans to the members who must make sure the loan is paid or they become liable for it.

2.2.2.3 Individual Lending

This is the lending of loans to individuals with collateral. Besley and Coate (1995), say despite the advantages of lending to groups, some members of the group may fail to repay their loan. Stresses that this method of lending avoids the social costs of repayment pressure that is exerted to some group members. Stiglitz (1990) highlights that members in group lending bear high risk because they are not only liable for their loans but to that of twenty-two group members. Zeitingner (1996) recommend the importance of routine visits to the clients to make sure the loan is used for the project intended for. These monitoring is vital but at the same time increases the cost of the microfinance institution.

2.2.2.4 Self-help groups (SHG)

This is common among women in the rural areas who are involved in one income generating activity or another (Ajai, 2005). Making credit available to women through SHGs is a means to empower them. This group is an institution that helps its members sustainably with the necessary inputs to foster their lives. SHG provides its members with not only the financial intermediation services like the creating of awareness of health hazards, environmental problems, educating them etc. These SHGs are provided with support both financial, technical and other wise to enable them engage in income generating activities such as; tailoring, bee keeping, hairdressing, weaving etc. It has a bureaucratic approach of management and are unregistered group of about 10 – 20 members who have as main priority savings and credit in mind (Ajai, 2005). The members in the SHG have set dates where they contribute a constant and equal sum as savings. These savings are then given out as loans to members in need for a fixed interest rate (Bowman, 1995).

2.2.2.5 Village Banking

This is a method of lending to individual members to have constant access to money for their Micro-enterprise daily transactions. Borrowers are uplifted using this method because they own SME that earn money sustainably. This enables them to acquire a larger loan sum which gives them higher profit when introduced into the business and of course the interest with this high sum is high making the bank financial sustainable. Village banking as of the 90s has gained grounds and certain adjustments are made to suit partner institutions. Village banking loan and savings growth rate increases as the bank continue to exist (Nelson et al; 1996). Hatch and Hatch (1998) Village banking loan and savings growth rate increases as the bank continue to exist.

2.2.3 Role of Microfinance Institutions

Access to credit can play a critical role in economic growth. Banks and lending institutions provide the services that allow people to save and invest available assets and resources, which further support and strengthens economic activity. Within underdeveloped communities, the role of microfinance institutions provides the credit access and financial services needed to develop income-earning businesses. Gonzalez-Vega (1983) reports that only a small fraction of farmers in LICs have received formal loans.

2.2.3.1 Access to Financial Services

Within any society, financial services provide a means for people and businesses to obtain credit and manage available assets on a continuous basis. Access to financial services enables existing businesses to grow and provides the starting capital for starter businesses. Microfinance institutions provide these services within communities that have limited resources and few avenues for economic development. People within these communities can use microloans to develop small businesses based on their existing talents and skill sets. It is estimated that only 15 percent of farmers in Asia and Latin America and just five percent in Africa are financed through formal credit sources (Gonzalez-Vega 1983, Braverman and Huppi, 1991).

2.2.3.2 Microfinance Approaches

On average, loan repayment rates for microfinance institutions range around 97 to 98 percent, according to the Developing World Markets news and reference site. This high repayment rate results from the approach methods used by microfinance institutions when working within communities. One approach uses a group method in which borrowers work within a group environment that fosters educational and supportive interactions among members. The group method also requires members to hold one another accountable for repaying loan obligations and also holds each group

member accountable for unpaid loans (Stiglitz, 1990). Microfinance institutions also work with another approach that uses self-help groups formed by government and non-government organizations within each community. Self-help groups also function as a supportive environment and can also open bank accounts under the group's name (Bowman, 1995).

2.2.3.3 Reliable Supports

Microfinance institutions provide a reliable source of financial support and assistance compared to other sources for financing. Sources operating outside the microfinance industry typically form informal relationships with borrowers and have no real legal or substantial ties with their customers. As a result, loan terms tend to carry high costs with no guarantee that lenders will remain in one place for any length. In contrast, microfinance institutions typically work alongside government organizations and also have ties with larger global organizations. In addition, microfinance institutions make modern technologies available to borrowers in the form of credit cards, ATMs and mobile phone banking capabilities. It has been observed that there is little or no difference between borrowers that receive credit alone and those that receive both credit packages and integrated enterprise development services (Ledgerwood, 1999).

2.2.4 Financial Markets in Low Income Countries (LICs)

Financial Markets in Low Income Countries are characterized by fragmentations and imperfect market conditions. According to Ghate (1992) the financial market is categorized into two forms: formal and informal financial markets. He defines formal financial markets as those financial market activities that are controlled by government, which are largely urban-oriented in terms of distribution of bank branches and the concentration of deposits and lending activities. Informal financial markets are defined as activities of various financial intermediaries ranging from farmers, money-lenders, friends, relatives, shopkeepers, merchants, traders, and Rotating Savings and Credit Associations (ROSCAs). Quasi-formal financial intermediaries are therefore

falling between these two scales and could include credit unions, village banks and various forms of credit schemes run by government or non- governmental organisations.

The reality of operations of the two forms of market, however, is more complex and the dividing line is not so clear-cut (Chandavarkar, 1987). Zeller (1994) observes that each segment of the financial market provides credit services that differ from each other with respect to target group, loan period, and amount of loan, its use, interest rates and transaction costs.

Formal institutions are more inclined to provide its services to the public sector, upper-income households, large-scale enterprises and non-agricultural activities, while the informal financial institutions tend to match their products and services to the characteristics and demand of the predominantly private, low-income, small-scale and rural population of most developing countries (Germidis, Kessler and Meghir 1991). The coexistence of informal finance serving the latter market can be seen as “healthy and dynamic, permitting more people to participate in financial markets” (Von Pischke 1991).

Literature has viewed the informal sector as the consequence of policy distortions and emphasised the negative consequences of financial dualism for allocative efficiency, equity and economic development (Taylor, 1983, Roe 1990). However, the recent development have seen the informal financial institutions to have a comparative advantage in some market segments due to its ability to enhance efficiency in resource allocation by mobilizing household savings and financing small business activities that are beyond the reach of the formal system (Ghate 1988 and Adams 1992).

In Tanzania, like other LICs, the financial market is a complex mix of formal, quasi-formal and informal lending activities. The financial markets operate not according to market forces, a condition that discourages domestic savings and hence a need for support to the poor and vulnerable rural producers (Mchujuko 1991).

2.2.5 The Experience of Micro- credit Initiatives in LICs

The inability and reluctance of formal banking sector (private and state- controlled banks) to serve the small borrowers' credit and saving needs, many governments of LICs and development partners have shifted attention to quasi-formal credit arrangements. Donor-funded development projects, state- controlled credit schemes and various NGOs have over the recent years increased their role in the provision of credit to small scale-farmers and rural micro- entrepreneurs. Billions of dollars are spent each year in efforts to improve terms and conditions under which small-scale producers obtain access to credit and financial services (Mohamed, 2003).

The majority of these efforts focus on ways of extending institutional credit schemes to small farmers and rural micro-entrepreneurs, typically aiming to provide credit to finance agricultural inputs and other micro-enterprise investments needs. Adams and Von Pischke (1992) report a number of assumptions behind the move to establish targeted credit schemes. Some of the assumptions include: the target group is too poor to adopt new technologies without loans and is also too poor to save, operators of small farms are thought to be very much in need of training and technical assistance in order to progress, informal finance plays little or no positive developmental role and that most of the target groups have 'credit needs' that commercial bankers refuse to fulfill for reasons that are neither commercial nor economic and that many of the small borrowers have good chances of improving their status and to obtain conventional bank loans.

In Tanzania, the record and image of small targeted credit programmes, have not been very impressive. The majority of small farmers and rural producers have not benefited from this credit expansion even when programmes are specifically oriented to them (Mchujuko 1991, Krain 1998 and Mohamed, 1999). Small farmers and rural producers have continued to rely mainly on their own resources occasionally supplemented by credit from traditional sources (Mohamed, 1999).

Even targeted credit schemes have shortcomings as far as financing agriculture and rural micro-enterprises are concerned. Krain, (1998) observes that targeted credit schemes offer only small short-term working capital loans and are limited in scope mostly serving the urban and peri-urban clients. Further, he observes that credit schemes usually concentrate on financing micro- enterprises that have high turnover and generate regular income flows, unlike in agriculture where the income flow is seasonal and profitability and turnover is low.

Furthermore, many small credit programmes tend to concentrate primarily on “productive” credit and neither offer easy-access consumption loans or flexible savings facilities which would contribute to poorer households coping strategies (Hulme and Mosley, 1996). Political influences (particularly in state-owned credit schemes) combined with problems of low loan recovery and unrealistic interest rates charged, to a large extent, limit the effectiveness of these credit schemes as are left to rely on external sources of loanable funds which are difficult to sustain (Krain, 1998). Adams and Von Pischke note that most of credit programmes that extend loans to farmers and micro- enterprises lost money, and collapsed or were sustained only by recapitalisation.

Zeller (2001) notes that despite the big effort by the governments of LICs and foreign donor agencies in establishing micro-credit schemes, it is estimated that only two percent of the populations in the developing countries have accessed credit from these schemes.

2.2.6 Linkage of Credit to Poverty Reduction

Many attempts to evaluate the impact of loans on borrowers turned out to be notoriously difficult, ambitious and misleading (Adams and Von Pischke 1980). Establishing the casual role to credit is complicated by household economics, which involve multiple sources of incomes. Feder *et al.*, (1990) point out that the difficulties in getting the data and the intrinsic ‘fungibility’ of money often obscures an exact link

between a loan and changes in a household's situation. Thus studies that compared changes in economic activities between individuals with loans and those without loans encountered serious methodological problems. However, it should be noted that changes to both individual enterprises and local economies occur gradually and can be structural and be sustained over the long term. It is also cumulative rather than immediately evident.

Results from several studies attempting to measure the impact have given rise to debates over the effects and value of credit. A survey conducted by Khandker (1998) to three major micro-credit programmes in Bangladesh revealed an 18 percent increase in household consumption from micro-credit borrowing by women, and an 11 percent increase in consumption when men are the borrowers. He suggests that 5 percent of participating families can escape poverty each year because of the increased consumption resulting from micro credit. Other impact results of micro credit reported by Khandker are consumption smoothing, employment smothering and improved child nutrition. Khandker warns, however, that these effects will only be sustainable only if micro-credit is targeted at areas and economic activities with high growth potential.

On a more similar situation, Morduch (1998) examines the impact of micro- credit and results show no increase in consumption among micro-credit borrowers but find beneficial impacts through consumption smoothing among borrowing households, as well as an increased ability to diversify employment. These effects obviously reduce the vulnerability of borrowing households compared with non-borrowing households.

2.2.7 The Role of Credit in Household Economy

Most LICs' economies are agriculturally based and thus credit is as a major component of agricultural and rural development programmes and also considered as an important instrument in helping small farmers and micro- entrepreneurs increase their income. Numerous programmes have been established to increase the volume of credit to serve this purpose.

Advocates of credit as a poverty alleviation measure (see, e.g. Howse 1978, Adam *et.al* 1984, Boomgard 1989, and Mutua 1996) contend that limited availability of credit services has undermined rural micro-enterprise activities due to lack of capital for investment and has prevented farmers to adopt improved farming practices because of their inability to purchase the necessary inputs required in the production. Low productivity in agriculture, livestock and fishing is generally attributed to the use of poor technology resulting from limited access to credit. Moreover, it is perceived that inadequate credit facilities has to a large extent discouraged the entry of youth to the farming and fishing sectors, and leave majority of them unemployed because of lack of investment capital and incentive.

Gilla and Lassalle (1994) show that rapid development reached in Europe and Asia was highly facilitated by the availability of credit to the majority. Countries like India, Indonesia, Burma and even China were reported to have recorded a good pace of development after managing to solve problems of credit availability for the majority.

However, Gulli and Berger (1999) point out that access to credit is important for micro-enterprise development but not necessarily the main constraint. This view is shared by Von Pischke (1992), who observed that lack of funds is not the most important problem of small farmers and micro-entrepreneurs noting that product prices, poor education system and training, low output, land tenure, modern input costs and availability and risk turn out to be more important factors limiting small farmers and micro- enterprise development.

The access to credit by small producers in many African countries is rather disappointing. Very few small farmers and rural micro-entrepreneurs have been integrated into formal financial markets and many do not use credit or if they do, they continue to borrow from informal market lenders (Adams, 1984).Gonzalez-Vega (1983) reports that only a small fraction of farmers in LICs have received formal loans. It is estimated that only 15 percent of farmers in Asia and Latin America and just five

percent in Africa are financed through formal credit sources (Gonzalez-Vega 1983, Braverman and Huppi, 1991).

2.2.8 Access to formal Credit by Small Farmers and Micro- enterprises

The majority of people in LICs do not have access to banks and other formal financial institutions. The development and commercial banks view the small-scale and micro-entrepreneurs as risk borrowers and extending loans to them is to cut down their profitability in the transactions and to incur irrecoverable losses to the banks (Levitsky 1993). Small borrowers are regarded riskier than large ones for reasons often related to the difficulty in obtaining accurate information about them. Banks associate small and micro- enterprises to high transaction costs because they are widely dispersed geographically and their inaccessibility. Illiteracy and unreliable income of small borrowers are also regarded as reasons for the reluctance of banks to lend to them.

Bottomley (1975) argues that the ceiling on interest rates also imposes a considerable constraint for banks to advance small loans since they prevent banks to incorporate the additional administrative costs involved in processing small loans and not also permit banks to offer risk-adjusted interest rates. Thus banks tend to advance loans only to those who offer lower risk and better security, which implies that only rich and wealthy people receive loans at cheaper rates, leaving the small and poor borrowers to seek loans from the unorganised credit market.

Mchujuko (1991) reports that in Tanzania, small farmers, though not officially stipulated in various bank lending policies, are discouraged by the institutional framework to individually apply for loans from the banking system. He notes the situation as perpetuated by cumbersome and costly tender formalities and sometimes necessitating client to tip a bank official in order for his loan application to be processed.

Banks also link credit to possession of immovable assets which are taken as loan security. Collateral is considered as an important part in the lending process. Mutua (1994) argues that since lender takes calculated risk, borrowers must demonstrate their good faith by showing that they too have something at stake in the deal.

Farmers and rural entrepreneurs in Tanzania, particularly women, are much at a disadvantage as far as their ability in offering collateral for loans is concerned (Omar and Shaidi, 1992). Poor farmers lack title deeds for the pieces of land they own and as a result they do not qualify for bank loans with which they can expand their businesses and improve their incomes. Tibaijuka *et al.* (1989) concede that insecurity in land tenure in Tanzania reduces the innovativeness and willingness of poor smallholders to invest and as a consequence has limited their chances to receive financial support from formal financial institutions.

Reliance on collateral by banks often, however, excludes many otherwise creditworthy small-scale borrowers in many African countries where land titles are not well documented or readily transferable (Steel *et al* 1997).

Discrimination of women in formal financial market is also widely spoken (FAO, 1984, Otero and Downing, 1989). It is argued that women's lack of control over economic resources and the nature of their economic activities restrict their access to formal credit more than men's. Other factors pointed out as constraints for women in accessing credit are related to institutional requirements, cultural and social norms and to the type of reproductive activities that women are engaged. McKee (1989) observes that gender-based credit constraints, such as limited education, inferior legal status and unpaid reproductive responsibilities aggravate the problems for women when operating small businesses.

2.2.9 General constraints to smallholder farmers and fishermen development

Despite the wide-ranging economic reforms instituted in the region, SMEs (including smallholder farmers and fishermen) face a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms (Steel & Webster, 1990). Cuevas et al. (1993) indicates that access to bank credit by SMEs (Including smallholder farmers and fishermen) has been an issue repeatedly raised by numerous studies as a major constraint to industrial growth. A common explanation for the alleged lack of access to bank loan by SMEs is their inability to pledge acceptable collateral.

In their view the current system of land ownership and transfer regulations clearly retards and to some extent limits access to formal credit. First, due to lack of clear title to much usable land, there is a limited amount of real property that can be put up as collateral. Second, a Government embargo on transfer of stool and family land has further restricted land availability for collateral. Finally, where title or lease is clear and alienable, transfer regulation needlessly delay the finalization of mortgages and consequently access to borrowed capital (p 24). Aryeetey et al. (1993) supported the view of Cuevas et al. (1993) that from the view point of private sector, problems related to finance dominate all other constraint to expansion (p 50).

They claimed that the available of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. Collateral provides an incentive to repay and offset losses in case of default. Thus collateral was required of nearly 75 percent of sample firms that need loans under a study, which they conducted on the demand supply of finance for small enterprises. The study also indicated that 65 percent of the total sample firm had at various times applied for bank loans for their business. Nevertheless a large proportion of the firm had their application rejected by banks. For firms that put in loans applications there was almost 2:1 probability that the application would be rejected. Firms receive loans for much less than they requested

for. Among firms that had their applications rejected, lack of adequate collateral (usually in the form of landed property) was the main reason given by banks. Aryeetey et al. (1994) suggest that banks can offer alternative to property as collateral such as guarantors, sales contract and liens on equipment financed.

Below is a set of constraints identified with the sector.

2.2.9.1 Input Constraints

SMEs (including smallholder farmers and fishermen) face a variety of constraints in factor markets. However, factor availability and cost were the most common constraints. The specific problems differed by country, but many of them were related, varying according to whether the business in the form of debt and equity.

2.2.9.2 Labour Market

This seems a less important constraint to Smallholder farmers and fishermen considering the widespread unemployment or underemployment in these countries. They generally use simple technology which does not require highly skilled workers. However, where skilled workers are required, an insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations (Aryeetey et al, 1994). Nonetheless, limited access to public contracts and subcontracts, arising from awkward bidding procedures and/or lack of information, inhibit SME participation in these markets

2.2.10 Loan Repayment Performance

Most of the schemes or programmes that are involved in the provision of credit services to smallholder farmers and micro-enterprise sector in Zanzibar have experienced poor repayment performance. According to Mohamed, 2003, main reasons for this situation include:

Attitude of people towards loans from government sources: There are wrong perceptions that once loans are provided by government and its affiliations there is no need to repay them resulting from time practices by the government to provide loans without pressing for repayment. There are misconceptions that these are grants and that the government use of the word loan is to prevent many people from requesting such services. Frequent pardoning of government borrowers to repay their loans for political reasons has made the situation even much worse.

Poor loan appraisal systems: Different credit schemes or programmes visited have different loan conditions and appraisal procedures some of which are inadequate thus allowing uneconomic enterprises to be financed. Also some people managed to secure loans and used them for other unproductive purposes other than the loan agreements leading to failure by borrowers to raise sufficient funds to meet repayment obligations.

Weak capacity: Many borrowers have weak management capacity and lack technical skills in production, marketing and financial control all of which lead to difficulties in servicing their loans.

Marketing problems: Borrowers face severe marketing problems for their products particularly during peak production seasons and lack processing skills and facilities. The perishable products, such as agricultural and fish products, and poor transportation systems all contribute to low product prices with negative consequences to loan repayment performances.

Enterprise failures due to technical reasons and natural disasters: Technical reasons such as breakdown of machines, wrong breeds of animals, poor quality seeds, crop failures due to drought, floods or outbreak of pests and diseases, death of livestock or sinking of fishing boats contribute towards failure to repay loans.

Poor loan follow-up systems: Most credit schemes or programmes have poor loan follow-up systems, have no regular monitoring visits to borrowers to provide advice and collection of loan repayments. Borrowers are left to decide when to visit project

offices for making payments. This allows some borrowers to skip repayment schedules and others to completely default.

Lack of collateral/security: Most of the loans offered by the visited credit schemes or programmes were provided without collateral or security. The explanation is that farmers and micro-entrepreneurs are poor and have no tangible assets for collateral. Majority of farmers cultivate on non-secured lands that cannot be offered as collateral. Lack of security to loans does not encourage accountability on borrowers since they have nothing to lose by not fulfilling their loan contractual agreements.

2.2.11 The Experience of Micro- credit Initiatives

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The majority of these efforts focus on ways of extending institutional credit schemes to small farmers and rural micro-entrepreneurs, typically aiming to provide credit to finance agricultural inputs and other micro-enterprise investments needs. Adams and Von Pischke (1992) report a number of assumptions behind the move to establish targeted credit schemes. Some of the assumptions include: the target group is too poor to adopt new technologies without loans and is also too poor to save, operators of small farms are thought to be very much in need of training and technical assistance in order to progress, informal finance plays little or no positive developmental role and that most of the target groups have 'credit needs' that commercial bankers refuse to fulfill for reasons that are neither commercial nor economic and that many of the small

borrowers have good chances of improving their status and to obtain conventional bank loans.

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Furthermore, many small credit programmes tend to concentrate primarily on “productive” credit and neither offer easy-access consumption loans or flexible savings facilities which would contribute to poorer households coping strategies (Hulme and Mosley, 1996). Political influences (particularly in state-owned credit schemes) combined with problems of low loan recovery and unrealistic interest rates charged, to a large extent, limit the effectiveness of these credit schemes as are left to rely on external sources of loanable funds which are difficult to sustain (Krainop.cit). Adams and Von Pischke note that most of credit programmes that extend loans to farmers and micro- enterprises lost money, and collapsed or were sustained only by recapitalisation.

Zeller (2001) notes that despite the big effort by the governments of LICs and foreign donor agencies in establishing micro-credit schemes, it is estimated that only two

percent of the population in the developing countries has accessed credit from these schemes.

2.2.12 Microfinance Policy

Microfinance in Zanzibar is one of the approaches that the Government of Zanzibar (GoZ) has focused its attention in recent years in pursuit of its vision 2020 of providing sustainable financial services to majority of people in Zanzibar. Before the current financial and banking restructuring took place, most of financial services for rural, micro and small enterprises were offered by the People Bank of Zanzibar (PBZ) and the National Microfinance Bank (NMB) (GOZ, 2007).

Since 2005, the government has been implementing financial sector reforms aimed at putting in place a competitive, efficient and effective financial system. Although the reforms have had reasonable success in bringing about the growth of competitive and efficient mainstream banking sector, it has not brought about increased access to basic financial services by the majority of the Zanzibar's particularly those in rural areas.

The realization of the above shortcoming led to the Government's decision to initiate deliberate action to facilitate alternative approaches in the creation of a broad based financial system comprising of a variety of sustainable institutions with wide outreach and offering diverse financial products. The government's choice of microfinance was influenced by the conviction that, given adequate attention, microfinance has the potential to contribute considerably to the economic development of the country because it is more adapted to the needs of the low-income population which makes up the majority of people in Zanzibar (GOZ, 2007).

2.2.13 Formal Credit Sources

Despite the financial sector reforms, Zanzibar still has a limited number of bank establishments. The formal banking sector consists only of the Bank of Tanzania (BOT) and three commercial banks namely National Bank of Commerce (NBC)

Limited, The People's Bank of Zanzibar and The Tanzania Postal Bank. Generally, the lending rules and procedures of these commercial banks exclude small farmers who basically farm on non-secured lands and possess no tangible assets to offer as collateral and security for bank loans (Mohamed, 2003).

Moreover, commercial banks regard farming and fishing as the most risky investment areas and avoid them in a bid to reduce loan transaction costs and raise their profitability. Due to this fact, the NBC Limited caters only for the commercial sector of the economy and does not lend to farmers and fishermen. The People's Bank of Zanzibar, which still remains wholly state- owned and controlled by the Revolutionary Government of Zanzibar, also has no credit line for farmers and fishermen and most of its lending activities are directed to the commercial sectors, government departments and parastatals (Mohamed, 2003).

The Tanzania Postal Bank, which started its operations in Zanzibar in April 2000, is only confined in the Zanzibar town areas and has not yet established outreach links to Pemba and rural areas of Unguja islands. The credit policy of this bank is to provide short-term credits to micro-enterprises repayable within a period not exceeding 12 months. Farmers and fishermen whose credit needs are mostly of medium and long-term nature are not covered by this bank (Mohamed, 2003).

The reluctance of commercial banks to lend to farmers and fishermen is influenced by the fact that these groups are numerous and widely dispersed geographically, they require small amount of loans which are costly to administer and that farming and fishing activities are high risky areas for investments because of their susceptibility to weather and external shocks (Mohamed, 2003).

These groups also are unable to offer collateral, they possess nil or low equity, weak project design, and have little management experience and poor financial controls.

2.2.14 Quasi-formal Credit Sources

Quasi-formal credit is that which is provided by the government or non- governmental organisations and is meant to fill the gaps in credit delivery that are not addressed by formal and non-formal credit sources. Most countries in the developing countries, including Tanzania, have introduced quasi- formal credit arrangements in an attempt to catalyze economic development for poverty reduction (Mohamed, 2003).

According to Mohamed, 2003, the credit programmes were found to have the following characteristics:

First, they are not comprehensive in their operations in the sense that they all have specific target groups based on sex, age, and socio- economic status and aim to promote specific type of technologies, such as dairy farming, poultry keeping, vegetable production, fishing, hand crafting and petty trading. Second, they mostly serve the urban and peri-urban clients for easy management of loans and reducing risks. Third, they typically offer small, short-term capital loans for periods of up to one year.

Fourth, interest rates vary widely and are highly concessionary.

Fifth, they concentrate on financing micro-enterprises that have high turnover and that generate regular income flows.

Sixth, most deal with the disbursement of loans and not mobilisation of savings.

Seventh, political and government interferences in the operations and allocation of credit is high particularly for the government owned schemes or programmes.

Eighth, they have sustainability problems because they fail to cover their costs and to recover their loans.

Ninth, most demand no collateral/security for the loans offered.

Tenth, most have poor loan follow-up systems, poor appraisal systems and lack capacity to administer credit; and eleventh they largely depend on external sources for loanable funds, which is difficult to sustain.

2.3 Empirical literature reviews

2.3.1 Empirical Literature Reviews in the World

Fatchamps (1997) notes that with insufficient funds, farmers and fishers cannot invest in new equipment and machinery, and it becomes difficult to reach out to new markets and products. He further contends that without financial assistance, small farmers and artisanal fishermen cannot cope with temporary cash flow problems, and are thus slowed down in their desire to innovate and expand. The general perception is that access to external finance is critical for poor entrepreneurs, who may never have funds proportional to their ambitions.

Coleman (1999) also finds little evidence of an impact on the programme participants. The results, Coleman further explains, are consistent with Adams and Von Pischke's affirmation that "debt is not an effective tool for helping most poor people enhance their economic condition" and that the poor are poor because of reasons other than lack of access to credit.

According to Mosley (1997), microfinance makes a considerable contribution to the reduction of poverty through its impact on income and also has a positive impact on asset level. But the mechanism through which poverty reduction works varies between institutions. Generally, institutions that give, on average, smaller loans reduce poverty much more by lifting borrowers above the poverty line, whilst institutions giving larger loans reduce it much more by expanding the demand for labour amongst poor people.

Evidence found by Mosley and Hulme (1996) concerning a trade-off between reaching the very poor and having substantial impact on household income. They found that programmes that targeted higher-income households (those near the poverty level) had

a greater impact on household income. Those below the poverty line were not helped much and the very poorest were somewhat negatively affected. The poorest tended to be more reluctant to risk-taking. They also used their loans for working capital or to maintain consumption levels rather than for fixed capital or improved technology. Since, microcredit programmes typically require loan repayment on a weekly basis; some critics argue that repayment comes from selling assets rather than from profits of micro-enterprises. .

Amin et al (2003) used a unique panel dataset from northern Bangladesh with monthly consumption and income data for 229 households before they received loans. They find that while microcredit is successful in reaching the poor, it is less successful in reaching the vulnerable, especially the group most prone to destitution (the vulnerable poor).

Although today's World MFIs are present in nearly all developing and emerging countries, the study focus on a number of selected institutions operating in the World. Apart from examining the impact of microfinance institutions on development parse, it is probable focuses on differences in impact in regions with fairly asymmetric basic conditions. Compared to other developing countries, those in the World often show greatest difficulties to catch up with the world's more industrialized part study by Mosley (2011). The quality of data has yet to be as good as possible, taking into consideration the aforementioned general difficulty to obtain reliable data from developing countries.

2.3.2 Empirical Literature Reviews in Africa

For Ethiopia, an empirical study on the impact of microfinance institutions on development (Brune, 2009), considered six microfinance institutions, which are the Specialized Financial and Promotional Institution (SFPI), Wisdom, the Amhara Credit and Savings Institution (ACSI), Buusaa Gonofaa (BG), Poverty Eradication & Community Empowerment (PEACE), and Wasasa. These are all non-bank financial

institutions. The majority of these institutions were relatively small in size in 2001, with approximately 10 to 60 employees. ACSI is though an exception, as it was 40 times as big as the average institution in 2001. Without significant temporary decreases, all MFIs have increased their staff continuously. Until 2007, all MFIs have at least doubled in size. To point out the largest relative growth, Wasasa achieved an increase from initially 13 to eventually 127 employees, which corresponds to an average annual growth rate of 46.21%.

This pattern implies that the demand for microfinance services has progressively risen in recent years. Consistently, one should expect a similar pattern in the number of clients over time and, in fact, one can observe a positive trend in the number of borrowers and savers. One may also induce that this positive overall trend in microcredit may partially be traced back to successful group-lending schemes whose stability was shown by means of the microfinance game in chapter 3.1. For BG, PEACE, and Wasasa, the ratio of borrowers to savers is approximately one for most of the time. For ACSI, it steadily decreases over time, starting with 5.47 borrowers per saver in 1998 and converging to 1.66 in 2008. SFPI and Wisdom also dispose of more borrowers than savers, though with higher and also more volatile ratios of up to 5.86 (SFPI, 2001) respectively 16.46 (Wisdom, 2003).

A considerable part of borrowers in Ethiopian MFIs is female. The percentage mostly lies above 50%, yet high volatility across institutions and time is observable. ACSI has experienced the largest decrease between 1999 and 2003, where the percentage of female borrowers has fallen from 72.1% to 29.4% within four years. A similar pattern applies to Wasasa, where the number declined from 61% in 2003 to 36.2% in 2007. An overall trend is difficult to estimate here, though it is worth pointing out that more women borrow than men in general.

2.3.3 Empirical Literature Reviews in Tanzania

In Tanzania a number of studies have been done on microfinance institutions service, among the researcher who has done research on MFI service is Kuzilwa and Mushi (1997) examined the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of business that gained access to credit from a Tanzanian government financial source. The findings conceal that the output of enterprises increased following the access to the credit. It was additionally observed that those enterprises, whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses.

Chijoriga (2000) evaluated the performance and financial sustainability of MFIs in Tanzania, in terms of the overall institutional and organizational strength, client outreach, and operational and financial performance. 28 MFIs and 194 SME's were randomly selected and visited in Dar es Salaam, Arusha, Morogoro, Mbeya and Zanzibar regions. The findings of this revealed that, the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives, or a strong organizational structure. It was further observed that MFIs in Tanzania lack participatory ownership and many is donor driven. Although client outreach is increasing, with branches opening in almost all regions of the Tanzanian mainland, still MFIs activities remain in and around urban areas. Their operational performance demonstrates low loan repayment rates. In conclusion, the author pointed to low population density, poor infrastructures and low house hold income levels as constraints to the MFIs' performance.

Another study on microfinance in Tanzania were carried out by Rweyemanu et al (2003), he evaluated the performance and constraints facing semi-formal microfinance institutions in providing credit in Mbeya and Mwanza regions. The primary data were collected through a formal survey of 222 farmers participating in the Agriculture

Development Programme in Mbozi and the Mwanza Women Development Association in Ukerewe .In the analysis of their study the interest rates were found to be a significant barrier to the borrowing decision. Also the borrowers cited other problems like lengthy credit procurement procedures and the amount disbursed being inadequate. On the side of institutions, Mbeya and Mwanza credit programme experienced poor repayment rates, especially in the early years of operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-repayment.

In a study conducted by Kessy & Urrio (2006) on contribution of MFI on poverty reduction in Tanzania, the researchers covered four regions of Tanzania which are Dar-es-salaam, Zanzibar, Arusha and Mwanza. Both primary and secondary data were collected; primary data were collected from 352 MSE's through questionnaires, interviews were also conducted. PRIDE (T) Ltd which is a microfinance institutions were used as a case study so as to get the insight of MFI operations. The study findings pointed out that to large extent MFI operations in Tanzania has brought positive changes in the standard of living of people who access their services, clients of MFI complained about high interest rate charged, the weekly meeting was pointed out as barrier as the time spent in weekly meeting could be used to other productive activities. The study recommended MFI to lower its interest rate, increase grace period and provide proper training to MSEs.

In a survey carried out in rural Zanzibar, Krain (1998) observed that credit from the formal financial sources meets only a small portion of the total credit demand of the agricultural sector. He found out that credit from the formal financial sources accounted for only 9.9 percent of the total credit available to the agricultural sector. The remaining 90.1 percent is from the informal financial sources comprising mainly loans from relatives, neighbours, friends, rotational savings groups and one's superior at work ("boss") and other sources

2.4 Research Gap

The area of Microfinance Institutions in relation to their contribution on Smallholder farmers and fishermen (SFF) development has been significantly researched. Nevertheless, a gap still remains in establishing the contribution of Micro Finance Institutions in relation to growth of Smallholder farmers and fishermen. In the situation of establishing the contribution to SFF and how they related with Microfinance institutions, researchers have a wide evidence of the challenges faced by SFF, the working model for MFIs and range of services that provide solution to SFF problems. There is however little evidence to establish the relationship between services provided by MFIs and growth of SFF. This study therefore sought to fill in the gap by examining the contribution of microfinance institutions on development of smallholder farmers and fishermen.

2.5 Conceptual Framework

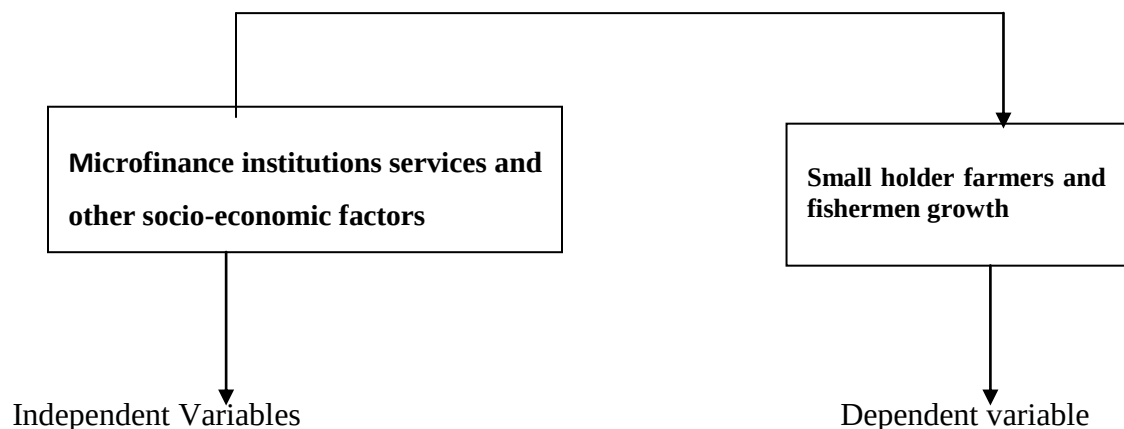


Figure 2.1: Conceptual Framework

2.6 Theoretical framework

All factors not included in this study are assumed constant. The SFF access credit from the MFIs but such credit has credit terms attached to them. The specific credit terms are collateral securities, loan period, loan repayment schedules, interest rates, and loan size. These credit terms could affect the liquidity levels of the SFF due to increase amount of loan which is actually if current assets not proportional increase with the loan size the ratio of current assets to current liabilities will be less than the favorable ratio which is 2:1. The situation may subsequently affect the growth of the SFF in terms of profit generation and in this case there could be underdevelopment of SFF.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section focuses on the research techniques adopted for this study with the aim of achieving the research objectives. It elaborates the research design and provides details regarding the population, sample size and sampling techniques and the research instruments that will be used in collecting data for the study. It also discusses the data collection methods and data analysis plan. The term methodology refers as the way, methods, techniques, channels, or means that are systematically used to solve the research problems. Methodology is also understood as a scientific study on how any research work can be carried on or can be performed/done scientifically (Kothari, 2005). The methodology entails various steps, which are generally adopted when conducting study to the research problem as might involves things such as the method of data collection, sampling techniques, data presentation and analysis.

3.1 Research design

Survey research design was adopted in this study to assess the accessibility of financial services from MFI's on the development of smallholder farmers and fishermen in Pemba Island. A survey is an investigation about the characteristics of a given population by means of collecting data from a sample of that population and estimating their characteristics through the systematic use of statistical methodology. The survey is a non-experimental, descriptive research method. It tends to be quantitative and aim to collect information from a sample of population such that the results are representative of the population within a certain degree of error.

Survey research design was chosen because the sampled elements and the variables that are studied are simply observed as they are without making any attempt to control or manipulate them. Also the design was chosen because quantitative information needs to be collected through the use of standard and structured questionnaire.

However, some of the weaknesses are that the researcher may not have sufficient information about all the variables occurring at the time. The researcher does not have control or knowledge regarding what variables will be controlled and this makes causal statements very difficult to make.

3.2 Research area

The study area selected for the research work was the Pemba Island in the both regions of Pemba especially in Chake – Chake and Wete District. It has been estimated to have a population of 325,000 in 2012 based on a growth rate of 5.4% per annum and this accounts for just under a third (32.4%) of the region's population of Pemba. Pemba has attracted such a population partly because it is the regional capital, and also the most commercialized centre in the Pemba Island. South Pemba Region is currently the second most urbanized in the Zanzibar, after Urban West Region.

Pemba is predominantly a trade and commerce (service economy inclusive) with an employment level of 31 per cent. This is followed by industry and agriculture with employment levels of 24 per cent and 5 per cent respectively. Pemba has therefore established itself as a good commercial centre. Commercial activity is centered on wholesaling and retailing. Both banking and non-banking financial institutions also offer subsidiary services.

3.3 Population

The study covered 93 registered and alive SACCOS in Pemba municipality. This was derived from the Department of cooperative society Pemba Office records of the year 2013/2014

3.4 Sample size and sampling techniques

3.4.1 Sample size

The data collection was included 10 cooperative societies (CS) that have access and use micro financing services and 10 cooperative societies (CS) that do not use micro financing services. Those which do not use micro financing services, will represent CS's living in close to those CS's which have access and use micro financing services, but which did not at the time of the interview include persons with access and or using micro financing services the respondents who will be categorized into two classes in order to assess the likely impact of credit use. In each class were included 70 respondents. The borrowers are those who have accessed credit from MFIs and non-borrowers are those who have never accessed credit from these sources. The underlying assumption in the two categories was that the economic status of both groups was comparable before receiving loans. A sample size of the 140 participants was targeted for responses. 140 questionnaires were distributed to these CS out of which we received responses from 120 respondents. This represented about 85.7 % of the response rate which we deemed to be impressive for this study.

The sample size is chosen to maximize the chance of uncovering a specific mean difference, which is also statistically significant. An appropriate sampling interval was chosen so that to achieves the desired sample size. In this study the researcher was sourced about 1,265 individuals of smallholder farmers and fishermen but only 120 respondents were selected.

The sampling interval was every 11 respondents. The sampling interval was determined using the following formula

$$\text{Sampling interval} = \text{Total population size} / \text{Desired sample size}$$

3.4.2 Sampling techniques

The sampling procedures were involved the following steps:

- i. Obtaining the total number of Smallholder farmers and fishermen accessing and using microfinance services from microfinance institutions in Chake - Chake, Wete , Mkoani and Micheweni District respectively.
- ii. Select Smallholder farmers and fishermen to be studied. This however, was taking into account residence aspects. The sample was included about 45 percent of urban based households and 55 percent of rural based households. The selection of households from urban and rural areas was done by giving them equal chances of being included in the sample but basing on the proposed percentages (Urban areas 45 percent and rural areas 55percent) and without mixing them.

3.5 Data collection methods

The method of convenience sampling was employed in arriving at the 16 CS, which the researchers believe possesses the experience relevant for this study and who have sufficient time and were willing to participate (Morse, 1998). This technique, convenience sampling, involves obtaining responses within the sample frame from willing respondents and also their availability for the study.

The advantage here is that respondents will participate on their own volition and not selected against their will. This technique was chosen to boost response rate because respondents in this sector are reluctant in giving out information since they believed in one way or the other, information about their business may leak through to competitors

and also exposed them to tax authorities. Besides, the quality of responses was high as participants took their time to respond to the questionnaire.

The study was used qualitative data. Primary data was used in this study. For primary data generation, respondents were drawn from MFIs members. The respondents comprised MFIs' officers, respondents who are financier.

It was also primary data obtained for the study. The primary data were those collected from the field by the researcher from Smallholder farmers and fishermen and Micro Finance Institutions (MFIs) in the Pemba Island

Again purposive sampling was used to select 5 Microfinance institutions and 20 cooperative societies in Pemba Island. Though there are number of MFIs, some are not suitable because they are not officially registered with the register of business. The researcher was used the purposive sampling technique for selecting MFIs that have great experience in micro credit operations especially in Pemba environment. For the purpose of this research only registered MFIs were selected.

3.6 Data analysis methods

A descriptive statistics was found to be an ideal analysis technique and subsequently used in ascertaining the contribution of microfinance institutions to the growth of smallholder farmers and fishermen. Aided by the tabulation of data extracted from a close-ended questions surveyed, it was easier to understand the issues identified by the respondents.

Also to help answer the question whether or not SFF have grown in Pemba as contained in the objectives in chapter one.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND DISCUSSION OF THE FINDINGS

4.1 Introduction

The data collection for this study was done basically through the usage of questionnaire. We targeted a population of 140 and distributed the questionnaires among them. Out of the 140 questionnaires circulated, 120 were returned representing about 85.7% of response rate, which we deemed impressive considering the short time given to these respondents. A higher response rate would have been preferred, but there were many reasons for the percentage achieved. Two of the most crucial reasons were:

Some of the SFF were reluctant in answering the questions because they thought the information they will provide will one way or the other fall in the hands of the tax authorities despite the assurance given in writing that all information given would be treated confidentially.

Others also complained about the time given them to provide answers to the questions. According to them, it was too short and as a result their inability to complete answering the questions

In spite of these problems, the response rate of 85.7% for the purpose of this study is quite good.

The presentation, analysis and discussion focused on three research objectives, which were in line with the research questions. It is therefore sectioned into basic information about respondents, response rate, respondents' background, and the contribution of microfinance institutions to the growth of smallholder farmers and fishermen. The findings are represented and interpreted and discussed in line with the study objectives set at the start of the study

4.1.1 Basic Information about Respondents

The characteristics of the respondents were measured in terms of gender, the education levels, age, and type of activity, MFIs membership and the period of borrowing. The data of individual respondents are drawn from cooperative societies as indicated in appendix 3.

Table 4.1: Distribution of respondents by gender

Gender	Frequency	Percent	Cumulative Percent
Male	49	40.833	40.833
Female	71	59.167	100
Total	120	100	

Table 4.2: Distribution of Respondents by Age group

Age Group	Frequency	Percent	Cumulative Percent
18 -25	12	10.00	10.00
26 – 33	46	38.33	48.33
34 – 41	11	9.167	57.50
42 – 49	49	40.83	98.33
50 and Above	2	1.67	100
Total	120	100	

Source: Field survey, 2015

The distributions on the respondents by gender observed from the table 1 revealed that majority of the females were 59.167% while 40.833% were males. This implies that large number in agricultural sector is females because according to the respondents men comparatively have more formal education than women, therefore most of them become reluctant to participate in agricultural activities also females said that some of their men are lazy not because of their educational status. Since

women are bigger number in the agriculture is advised by the researcher to motivate them in different means enable them to grow and develop not only in their business but also their livelihood. This information concur with Mohamed (2003) recommendation, he recommend that Gender differences with respect to access to credit facilities have to be critically looked into. Extending credit to women will not only accelerate production in agricultural and micro–enterprise sectors but also improve rural livelihood and reduce poverty and as such women should be encouraged to form their own credit and saving groups and take new viable economic forms of income generation. There is also a need to strengthen their capacity of analysis and decision making to improve their chances to access credit and to improve their capacity to efficiently utilise the credit.

The results on the respondents by age were observed from the table 2 shows that the majority of the respondents were between 26 - 33 and 42-49 (38.33% and 40.83% respectively) while those aged 50 and above were only 1.67%. The implication here is that most of the SFF are operated and managed by the middle- aged people. When asked the respondent why most of the smallholder farmers and fishermen are in the middle age, they express that due to the nature of their work (farming and fishing) there must strong people run the activities also youth are able take loans and work hard so as to repay the on time.

Table 4.3: Educational Level

Education level	Frequency	Percent	Cumulative Frequency
Primary Education	21	17.50	17.50
O level	46	38.33	55.83
A- Level	34	28.33	84.16
Diploma/Certificate	13	10.84	95
Degree and Above	6	5	100
Total	120	100	

Source: Field survey, 2015

Results from table 3 above discovered that majority of the respondents had reached at least an O-level education about 38.33% followed by those who had attained Advance level of education (28.33%) while 17.5% of the respondents had attained at least primary education. These findings here indicate that the diploma and certificates owned by 13 People (10.84%). Only 6 respondents were observed to have degree level and above. The results implies that there are high chances of these SFF being poorly controlled and managed due to minimum number of people only 6 have expert knowledge.

Table 4.4: Type of business activity

Type of business	Frequency	Percent	Cumulative percent
Artisanal fisherman	46	38.33	38.33
Smallholder farmer	74	61.67	100
Total	120	100	

Source: Field survey, 2015

On the assessment of the type of business involved by most respondents, the results in the table above revealed that the majority were in the farming activity (61.67%) while it was also revealed that artisanal fishermen occupy about 38.33% of the SFF in Pemba Island. The implication here is that farming is the most dominant activity carried out by most SFF in Pemba Island while fishing is the least dominant activity carried out by the SFF.

Table 4.5: MFIs members (borrowers)

	Frequency	Percent
Yes	--	--
No	42	35
Total	120	100

Source: Field survey, 2015

The researcher also investigated the number of MFIs members of SFF, and the results in the table above indicated that majority of the SFF are the members of MFIs for about 65% while, only 35% are not members of MFIs

Table 4.6: Period of borrowing

Period of Borrowing	Frequency	Percent	Cumulative Percent
0 to 1	4	5.13	5.13
2 to 4	30	38.46	43.59
5 to 7	19	24.36	67.95
8 And over	25	32.05	100
Total	78	100	

Source: Field survey, 2015

The researcher also investigated the period of borrowing for SFF, and the results in the table above indicated that majority of the SFF have borrowed for at least 2-4 years (38.46%) while, only 5.13% for borrowed capital of less than a year. This implies that the rate at which businesses are agreed to use is still low since only 5% were involved in less than one year.

Table 4.7: Sources of finance for starting capital of non MFIs members

	Frequency	Percent	Cumulative percent
Own capital	30	66.67	66.67
From family members and friends	12	7.14	100
Total	42	100	

Source: Field survey, 2015

The table 4.7 demonstrates that the majority of respondents who are not MFIs members in Pemba Island started their business activities through their own capital then followed by those from family and friends. This means that from the starting point of the business did not take loans from financial institutions. This finding is the same as of Mohamed, (1999) who stated that Small farmers and rural producers have continued to rely mainly on their own resources occasionally supplemented by credit from traditional sources.

4.1.2 Lending technology adopted by MFIs and their relevance to the needs and aspiration of SFF and to the sustainability of the credit arrangements

The data of individual respondents are drawn from cooperative societies as indicated in appendix 3.

Table 4.8: Lending technology adopted by MFIs

	Frequency	Percent	Cumulative Percent
Individual lending	12	34.29	34.29
Group lending	23	65.71	100
Total	35	100	

Table 9: Relevance of the adopted technology

	Frequency	Percent	Cumulative Percent
Individual lending method avoids the social costs of repayment pressure that is exerted to some group members	12	34.29	34.29
Group lending method provides small credits to the poor and this is most used by microfinance that provides loans without collateral.	23	65.71	100
Total	35	100	

Source: Field survey, 2015

On the assessment of the lending technology adopted by MFIs and their relevance to the needs and aspirations of SFF and to the sustainability of the credit arrangements, the results in the table above revealed that the majority of the technology used is group lending (65.71%) while the individual lending were 34.29% of the SFF in Pemba Island. The implication here is that group lending is the most dominant technology carried out by most MFIs in Pemba Island. According to the respondents group lending is better since group formation is made by members who know themselves very well or have some social ties also each one is collateral to another. It can be concluded that the findings concurs with Mchujuko (1991) that in Tanzania, small farmers, though not officially stipulated in various bank lending policies, are discouraged by the institutional framework to individually apply for loans from the banking system.

4.1.3 Factors that influence credit accessibility by smallholder farmers and fishermen

The data of individual respondents are drawn from microfinance institutions as indicated in appendix 3.

Table 4.9: Products and service tailored to SFF

Products and services tailored to SFF	Frequency	Percentage	Cumulative percent
Small scale business loans	13	37.14	37.14
Small scale business accounts	6	17.14	54.28
Business Management trainings	2	5.71	59.99
Marketing services	4	11.43	71.42
Financial literacy	7	20.00	91.42
ICT facilitation	3	8.58	100
Total	35	100	

Source: Field survey, 2015

Small-scale Business loans are the major product offered by Microfinance institutions in Pemba Island as shown in the above table (37.14%), Financial literacy was 20%,

Small scale business accounts was 17.14%, and marketing service was offered at the rate of 11.43%, ICT facilitation was 8.58% while business management training are the least offered represented by 5.71%. This implies that business management training is not sufficiently provided by microfinance institutions and it is very important factor to help smallholder farmers and fishermen grow as insisted in the study of Kuzilwa and Mushi (1997), he observed that those enterprises, whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment should be created financial institutions can continue to be easily accessed by micro and small businesses. The stream of products and services are offered by the microfinance institutions but with varying emphasis. This might be based on the importance of these products and services to the SFF and the rate of return to the MFIs. Also respondent express that majority of the product or service offered is small-scale business loan this finding correlates to Fatchamps (1997) as he contends that without financial assistance, small farmers and artisanal fishermen cannot cope with temporary cash flow problems, and are thus slowed down in their desire to innovate and expand. The general perception is that access to financial assistance is critical for poor entrepreneurs, who may never have funds proportional to their ambitions.

Table 4.10: Whether MFI products and services have contributed to the growth of SFF

	Frequency	Percentage	Cumulative percent
Yes	21	17.50	17.50
No	99	82.50	100
Total	120	100	

Source: Field survey, 2015

In a question seeking to find out whether the products and services have contributed to the growth of SFF, 82.5% said no against 17.5% who said yes. The interpretation of the response is based on the experience meaning that, those with No opinion might have used the products and experienced constant level of expansion while the yes

opinion represent the positive impacts of the products and services that might have contributed to the growth of SFF. This finding match to Chijoriga (2000), his findings revealed that, the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives.

Table 4.11: The extent of the growth of Smallholder farmers and fishermen (SFF) business that has been attributed to the following parameters/services by Microfinance Institution (MFIs)

Statement	Agreement level	Frequency	Percentage	Cumulative percent
Use of mobile banking has reduced operational costs in our business	Strongly agree	56	46.67	46.67
	Agree	48	40	86.67
	Neutral	12	10	96.67
	Disagree	4	3.33	100
Total		120	100	
Availability of branchless banking has increased accessibility to financial services	Strongly agree	76	63.33	63.33
	Agree	39	32.50	95.83
	Neutral	5	4.17	100
	Disagree	0	0	100
Total		120	100	
SFF customized loans have reduced the level of financial challenges faced by SFF	Strongly agree	45	37.50	37.50
	Agree	42	35.00	72.50
	Neutral	23	19.17	91.67
	Disagree	10	8.33	100
	Total	120	100	
Business groups facilitated by SFF has increased marketing of our products	Strongly agree	34	28.33	28.33
	Agree	51	42.50	70.83
	Neutral	13	10.83	81.66
	Disagree	22	18.34	100
Total		120	100	
We are able to sustain our business in a better way due to management skills provided by MFI.	Strongly agree	48	40.00	40.00
	Agree	25	20.83	60.83
	Neutral	11	9.17	70.00

	Disagree	36	30.00	100
	Total	120	100	
MFI have increased the level of financial literacy among SFF	Strongly agree	38	31.67	31.67
	Agree	49	40.83	72.50
	Neutral	24	20.00	92.50
	Disagree	9	7.50	100
	Total	120	100	
We have opened new branches as a result of financing from MFIs	Strongly agree	0	0	0
	Agree	0	0	0
	Neutral	93	77.50	77.50
	Disagree	27	22.50	100
	Total	120	100	

Source: Field survey, 2015

The extent of the growth of Smallholder farmers and fishermen (SFF) business that has been attributed to the following parameters/services by Microfinance Institution (MFIs) was measured through different assertions. Majority of the respondents' equivalent to 46.67 % strongly agree that the use of mobile banking has reduced operational costs in our business. 40 % had an agreeing opinion, the remaining about 10% had neutral opinion. Equal percentage of 3.33% disagreed, and strongly agreeing about 63.33% that availability of branchless banking has increased accessibility to financial services, 32.5% had agreed and only 4.17% had neutral opinion with the assertion. Elsewhere, in the assertion SFF customized loans have reduced the level of financial challenges faced by SFF revealed that, 37.5% had a strongly agree opinion, 35% agreed, 19.17 % neutral as 8.33% disagreed.

On the exploring the Business groups facilitated by SFF has increased marketing of SFFs' products, the results were agree opinion 42.5%. Response of 28.33% had a strongly agreeing opinion, 18.34% disagreed while 10.83 had neutral opinion towards the assertion. SFF are able to sustain their business in a better way due to management skills provided by MFIs. This assertion received a mixed opinion with the majority of

the respondents expressing strongly agree opinion revealed by 40 %, disagreeing opinion with 30 % and agreed 20.83% and 9.17 % represented neutral opinion. The assertion that MFI have increased the level of financial literacy among SFF revealed that 40.83% had agreed, 31.67% were strongly agree, 20% had neutral opinion while only 7.5% disagreed. Finally on the assertion states that we have opened new branches as a result of financing from MFIs most of the respondent had neutral opinion about 77.5% and only 22.5% disagreed

It is analyzed that, among the financing facilities offered by the MFIs, provision of suitable loan products to SFF, follow up programmes for the loans provided and favorable interest rate are the most benefiting facilities of financing. The response indicates that, if the MFIs concentrate and increase their efforts towards these facilities can curb financing challenges facing SFF and provide an opportunity for them to grow and expand.

Table 4.12: Challenges preventing growth and expansion of business

Challenges	Frequency	Percent	Cumulative percent
Lack of finance	54	45	45
Poor financial literacy	15	12.5	57.5
Lack of business management	22	18.33	75.83
Lack of market for products	8	6.67	82.50
Lack of ICT knowledge	21	17.50	100
Total	120	100	

Source: Field survey, 2015

The challenges preventing SFF from growth and development are lack of enough finances, financial management skills, poor financial literacy and lack of market for products. Among these challenges, lack of finances is most common challenge with 45%. Lack of financial management skills is the second overwhelming challenge presented by 18.33%. 17.5% express their challenge as lack of ICT knowledge, 12.5% expressed their challenges as poor financial literacy while 6.67% held that lack of market for their products is a challenge preventing growth and development of their

businesses. The most common challenge is lack of finance, smallholder farmers and fishermen are limited by enough funds to acquire modern tools to run their activities in the most efficient manner. This was supported by the study of Boomgard (1989), and Mutua (1996) contend that limited availability of credit services has undermined rural micro-enterprise activities due to lack of capital for investment and has prevented farmers to adopt improved farming practices because of their inability to purchase the necessary inputs required in the production. Low productivity in agriculture, livestock and fishing is generally attributed to the use of poor technology resulting from limited access to credit. These challenges show why some smallholder farmers and fishermen have remained constant while other retard.

The way forward for these SFF is to get help from financing institutions such as Microfinance institutions that not only support them financially but also educate them on how to manage the businesses and finances.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter includes conclusions and recommendations that will serve as guidelines to assist MFIs positive contribution on the growth of the SFF, and conclusion was based on specific objective

5.2 Conclusions

5.2.1 Assessing the lending technology adopted by MFIs in availing credit services to smallholder farmers and fishermen;

Each microfinance institution has adopted different mechanisms of lending technology since each lending has its benefit and drawback. Majority of the respondents use group lending to small farmers and fishermen while there individuals who require individual lending also microfinance institution has to lower requirements for the person to win the loan especially to the people who do not culture of using financial institution to encourage them to financial institution as save place to save their money and take loan. The establishment of a wider network of bank branches to serve the farming and fishing sectors may not be possible to the banking institutions thus the formation of cooperatives, farmers associations or other forms of group responsibility for the administration and supervision of credit programmes at the local level should be promoted. Group lending approach may not only reduce the high overhead costs associated with small lending but may also encourage the establishment of good credit culture and help in achieving acceptable loan repayment levels. The emergence of saving and credit cooperatives (SACCOs) and saving and credit groups (such as 'Upatu' groups) offers an excellent opportunity as a starting point for the use of group mechanism in accessing credit to the poor majority. The Department of Cooperatives

of Zanzibar should facilitate the group formation process such as assisting in registering and strengthening the existing productive organisations and cooperatives through capacity building. Strong cooperatives and associations can be a very useful instrument not only for channeling credit but also in the mobilisation of savings from small producers.

5.2.2 Determining factors that influence credit accessibility by smallholder farmers and fishermen;

Factors that influence credit accessibility by smallholder farmers and fishermen; Small-scale Business loans are the major product offered by Microfinance institutions in Pemba Island Small scale business accounts, business management training, marketing services are offered while financial literacy skills are the least offered .The stream of products and services are offered by the microfinance institutions but with varying emphasis. Provision of training to credit beneficiaries in aspects of credit management, saving mobilisation, basic accounting, financial management, cash flow management, technical and on marketing aspects of agricultural, fisheries and other micro- enterprise products should be enhanced. Beneficiaries also need to be well informed on their obligations, particularly in loan repayment needs.

5.2.3 Determining the challenges preventing growth of the smallholder farmers and fishermen (SFF)

Among the financing facilities offered by the MFIs, provision of suitable loan products to SFF, follow up programmes for the loans provided and favorable interest rate are the most benefiting facilities of financing. The response indicates that, if the MFIs concentrate and increase their efforts towards these facilities can curb financing challenges facing SFF and provide an opportunity for them to grow and expand. In all the assertions gauging the level of financial literacy of SFF and the provision of the skills by MFIs, poor financial management skills among SFF is a major obstacle towards their growth and development. Majority of them are unable to document their

business operations and perform basic accounting. From the response of those who expressed agree and strongly opinion, though minimal, it shows that the provision of the skills by MFIs has helped them manage their finances. However, given that the majority expressed a neutral opinion coupled by disagreeing opinion, there is concern that the MFIs have not provided these services to the satisfactory to help most of the SFF grow and develop. The Microfinance Institutions have managed to register SFF in businesses association and updated their database, as a way to facilitate marketing. However, the institutions suffer from facilitations for forming business clubs and facilitation of ICT use among the SFF. It is apparent that most SFF would need to be facilitated to do business through financing and provision of adequate management skills. This would probably enhance the level of resource allocation skills by SFF and thus facilitate growth.

5.3 Recommendations

Financing services and provision of financial literacy skills have helped SFF attain growth and development although they are not statistically significant. In most of the statements suggesting to provision of financial literacy, minimal levels of these skills have been offered. Therefore, it is recommended, that before granting loans to SFF, they should first train them on how to account for the finance. The MFIs should also plan for seminars and workshops to train the SFF on business and financial management.

Lack of management skills dominates most of the SFF: incompatibility highly occurs when the financing is provided to a reasonable depth and used by people lacking managerial skills. Therefore, MFIs should multiply their efforts on providing managerial skills. The use of ICT in facilitating marketing and business management is underutilized. This study therefore recommends intensified use and facilitation of ICT to help SFF reach services and information that can help them grows and develops. The issue of marketing for agricultural and fisheries products, produced after the acquisition of credit, has to be seen as a critical factor to the growth of SFF. Thus the

government should aim at improving the necessary infrastructures in the rural and urban areas in order to create market incentive to small-scale farmers, artisanal fishermen and small rural producers. Improvement has to focus on the road network, communication, power and water supply. Also agro-processing cottage industries need to be promoted and producers should be trained on quality aspects of their products. Moreover, the government should take serious actions to promote an obvious link between agricultural and fisheries sectors and the expanding tourism industry in the country.

Furthermore, for credit to be effective as a SFF growth component, its provision has to be well supported by relevant research activities and good extension services. Research should aim at developing appropriate innovations to improve agricultural and micro-enterprise performance. Extension services need to be effectively linked to research activities and to the target group in order to facilitate smooth flow of developed innovations to farmers and to give feedback to researchers for further improvement of the technologies. Promotion of effective linkages of researchers, extensionists and producers will, to a large extent, reduce the chances of enterprise failures and in so doing will give value to credit through the improvement of the performance of assisted enterprises.

5.4 Suggestion for Further Study

A related study can be done to analyze the economic challenges affecting microfinance institutions in financing SFF.

A similar study on the Contribution of Microfinance Institutions to the growth of Smallholder farmers and fishermen in other towns apart from Pemba Island can be done. It is very important to conduct the same around Zanzibar comprises both Pemba and Unguja Island

It is advised by researcher that the area of economic growth in a specified Region in Zanzibar contributed by SFF need to be researched.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE FOR MFI REPRESENTATIVES

Dear Respondent,

This questionnaire is aimed at gathering primary data on contribution of microfinance institutions on growth of Smallholder farmers and fishermen (SFF). You are kindly requested to fill in the questions depending on the instructions given. The information you provide will be treated with utmost confidentiality and will be used for the purpose of accomplishing an academic goal. Do not include your name anywhere in the questionnaire. Note that there are no wrong or right answers.

SECTION 1: Background information

1. Kindly indicate your gender

a. Male

b. Female

2. How long have you worked in this Microfinance institution?

a. 1-5 Years

b. 5-10 Years

c. Above 10 years

3. Indicate your work category

a. Top level management

b. Middle level management

c. Lower level management

d. Marketing executive

e. Support staff

4. What is the lending technology adopted in this Microfinance Institution?

a. Individual lending

b. Group lending

c. Other (Please specify) _____

5. How relevant are the lending technology adopted by your MFIs to the needs and aspirations of smallholder farmers and fishermen and to the sustainability of the credit arrangements?

a. Individual lending method avoids the social costs of repayment pressure that is exerted to some group members.

b. Group lending method provides small credits to the poor and this is most used by microfinance that provides loans without collateral.

c. Other (Please specify) _____

SECTION 2: CONTRIBUTION OF MICROFINANCE INSTITUTIONS ON GROWTH OF SFF.

6. Please indicate some of the products and services that are specifically tailored to SFF

a. Small scale business loans

b. Small scale business accounts

c. Mobile banking

d. Business management training

e. Marketing services

f. Financial literacy skills

g. Others (Please specify) _____

The End

Thank you for your participation

APPENDIX 2: QUESTIONNAIRE FOR SMALLHOLDER FARMERS AND FISHERMEN (SFF)

Dear Respondent,

This questionnaire is aimed at gathering primary data on contribution of microfinance institutions on growth of SFF in Pemba Island. You are kindly requested to fill in the questions depending on the instructions given. The information you provide will be treated with utmost confidentiality and will be used for accomplishing an academic goal. Do not include your name anywhere in the questionnaire. Note that there are no wrong or right answers.

SECTION 1: Background information

1. Kindly indicate your gender

a. Male

☐

b. Female

☐

2. How old are you?

..... Years old

3. Kindly indicate your level of education?

a. Primary education

☐

b. Ordinary level

☐

c. Advanced level

☐

d. Certificate/ diploma

☐

e. Degree and above

☐

4. What type of business activity you engage?

a. Smallholder farmer

☐

b. Artisanal fisherman

☐

5. Do you member of MFIs?

a. Yes

b. No

6. If yes in question 5 above how long have you been a member of MFIs?

a. 0-1 years

b. 2-4 years

c. 5-7 years

d. 8-10 years

e. Above 10 years

7. If no in question 5 kindly indicate your source of capital

a. From parents

b. From family members

c. From friends

d. Other (Specify).....

8. Do you attribute your answer in question 8 above to any of the following services provided by microfinance institutions? Kindly tick (✓) one of the options provided.

Yes/ No

		YES	NO
1.	SME business accounts		
2.	SME Credit facilities		
3.	Increased networking facilitated		
4.	Training on financial management skills		
5.	Business management skills		
6.	Low interest rates on loan facilities		
7.	Adequate grace period to settle loans		

9. Do you face any challenges that bar you from growth and expansion?

a. Yes

b. No

10. To what extent do you agree that the growth of your business has been attributed to the following parameters provided by microfinance institutions?

QUESTIONS	STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE
Use of mobile banking has reduced operational costs in our business				
Availability of branchless banking has increased accessibility to financial services				
SFF customized loans have reduced the level of financial challenges faced by SFF				
Business groups facilitated by SFF has increased marketing of our products				
We are able to sustain our business in a better way due to management skills provided by MFI				
MFI have increased the level of financial literacy among SFF				
We have opened new branches as a result of financing from MFIs				

11. If yes in question above what are some of the challenges that hinder growth of your activities?

a. Lack of enough finances

b. Lack / still financial management skills

c. Lack of market for products

d. Poor financial literacy

e. Others (Please specify) _____

12. What in your opinion is the contribution of services provided by MFI as far as facilitating your business growth is concerned.

a. They have no contribution

b. Have had positive contribution

c. Have had negative contribution

d. Other (Please explain) _____

End

Thank you for your participation

APPENDIX 3: LIST OF MFIs AND SFF SURVEYED

Table 22: List of MFIs surveyed

S/NO	MFIs SURVEYED	SERVICE PROVIDED	LOCATION BY DISTRICT
1.	National Microfinance Bank	Saving and credit	Chake- Chake
2.	Zanzibar Insurance Corporation	Saving and credit	Chake- Chake
3.	Pemba saving and credit association	Saving and credit	Chake - Chake
4.	Pride Tanzania	Saving and credit	Chake- Chake
5.	Peoples Bank of Zanzibar	Saving and credit	Chake- Chake

Table 23: List of SFF surveyed

S/No	SFF SURVEYED	Activity	Location by Village/District
1.	Hakuna kufichana saccos	Farmers	Wawi/Chake- Chake
2.	Niasafi SACCOS	Farmers	Kinyikani/ Wete
3.	Maisha ya leo saccos	Farmers	Matale/Chake- Chake
4.	Mtarazaki saccos	Farmers and fishermen	Kilindi/Chake- Chake
5.	Kichnjaani saccos	Farmers	Ndagoni/Chake - Chake
6.	Juhudi zetu saccos	Farmers	Kwale/Chake - Chake
7.	Gando saccos	Farmers and fishermen	Gando/Wete
8.	Kibokoni saccos	Farmers and animal keeping	Kibokoni/ Chake- Chake
9.	Chokocho saccos	Farmers and fishermen	Chokocho/ Mkoani
10.	Sebu Shari	Farmers and fishermen	Kangani/ Mkoani
11.	Jitume saccos	Farmers and fishermen	Mwambe/ Mkoani
12.	Chwakakuu	Farmers	Ukutini/Chake - Chake
13.	GEP saccos	Farmers	Kizimbani/Wete
14.	Jitihada Makaani	Farmers	Mjini Ole/Wete
15.	Tujuane saccos	Farmers	Konde/ Micheweni
16.	Shirikani saccos	Fishermen	KiuyuMbuyuni/ Micheweni

17.	Mwenyewivuajiungesaccos	Farmers and fishermen	Kinazini/ Micheweni
18.	Tujitegemeesaccos	Farmers and fishermen	MsukaMashariki/ Micheweni
19.	Jitihadasaccos	Farmers and fishermen	TumbeMagharibi/ Micheweni
20.	KijichameSaccos	Farmers and fishermen	Sizini/ Micheweni